

VALEO BEHAVIORAL
HEALTH CARE, INC.

Financial Statements
with
Independent Auditors' Report
For the years ended December 31, 2011 and 2010

By

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VALEO BEHAVIORAL HEALTH CARE, INC.
FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Valeo Behavioral Health Care, Inc.

We have audited the accompanying statements of financial position of Valeo Behavioral Health Care, Inc. (Valeo) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Valeo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 and in accordance with the terms of our engagement for the years ended December 31, 2011 and 2010, the financial statements as of and for the years ended December 31, 2011 and 2010 do not include the financial position and results of operation of Valeo CRP, Inc., an affiliate which Valeo controls.

In our opinion, except for the effects of the adjustments required to include Valeo CRP, Inc., an affiliate of Valeo, as of and for the years ended December 31, 2011 and 2010, the financial statements referred to above present fairly, in all material respects, the financial position of Valeo Behavioral Health Care, Inc. at December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2011 on our consideration of Valeo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial

statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Douthett & Co. CPA, PA

Douthett & Co. CPA, PA
Certified Public Accountants
June 29, 2012

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,803,808	\$ 5,704,974
Operating investments	6,020,018	4,965,983
Accounts receivable, net	647,214	715,649
Accrued investment income	43,055	33,641
Grants receivable	134,953	121,435
Other receivable	167,472	168,878
Due from Valeo CRP, Inc.	9,618	18,568
Prepaid expenses	<u>356,853</u>	<u>166,712</u>
Total Current Assets	13,182,991	11,895,840
CASH AND CASH EQUIVALENTS, Board designated	657,094	660,319
PROPERTY AND EQUIPMENT, net of accumulated depreciation	3,469,616	3,327,717
OTHER ASSETS		
Financing costs, net of accumulated amortization	<u>71,288</u>	<u>83,982</u>
TOTAL ASSETS	<u>\$ 17,380,989</u>	<u>\$ 15,967,858</u>

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 176,624	\$ 190,074
Accrued payroll	342,939	316,946
Accrued vacation	494,493	503,623
Other current liabilities	442,848	445,769
Current portion of long-term debt	205,000	195,000
Deferred revenue	<u>317,497</u>	<u>19,339</u>
Total Current Liabilities	1,979,401	1,670,751
LONG-TERM DEBT, less current portion, net of discount	<u>1,127,649</u>	<u>1,326,322</u>
TOTAL LIABILITIES	3,107,050	2,997,073
NET ASSETS		
Unrestricted:		
Board designated	707,940	698,604
Undesignated	<u>13,565,999</u>	<u>12,272,181</u>
TOTAL NET ASSETS	<u>14,273,939</u>	<u>12,970,785</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 17,380,989</u></u>	<u><u>\$ 15,967,858</u></u>

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF ACTIVITIES
For the years ended December 31, 2011 and 2010

	2011	2010
SUPPORT		
State mental health funds	\$ 2,125,605	\$ 2,171,350
Federal and state grants and contracts	2,225,888	2,031,203
Shawnee County taxes	2,158,226	2,114,272
City of Topeka taxes	307,811	262,811
Total Support	6,817,530	6,579,636
REVENUES		
Net patient fees	10,645,309	11,340,070
Management fees	167,448	193,152
Interest	196,698	111,273
Unrealized gain on investments	(24,446)	34,383
Miscellaneous	227,456	214,914
Total Revenues	11,212,465	11,893,792
TOTAL SUPPORT AND REVENUES	18,029,995	18,473,428
OPERATING EXPENSES		
Salaries and fringe benefits	11,379,178	11,233,127
Payments to affiliates	1,932,118	1,881,937
Depreciation and amortization	451,136	475,600
Telephone and utilities	414,256	408,418
Food and client supplies	395,133	352,446
Maintenance and repairs	356,865	376,692
Meetings and travel	226,062	248,601
Rents	64,842	63,468
Advertising	14,622	14,061
Printing and postage	30,440	37,401
Professional services	583,053	558,773
General and professional liability insurance	75,292	74,640
Seminars	58,028	40,112
Office supplies	115,964	106,856
Data processing supplies and support	135,488	53,554
Interest expense	66,282	73,423
Client transportation	65,633	34,987
Medical supplies	45,319	42,572
Medical services	4,870	2,296
Dues and memberships	75,071	48,709
Non-capital equipment	82,440	57,331
Property insurance	77,761	77,760

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF ACTIVITIES (Continued)
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING EXPENSES (Continued)		
Books and library materials	\$ 5,367	\$ 4,943
Miscellaneous	<u>71,621</u>	<u>61,530</u>
TOTAL OPERATING EXPENSES	<u>16,726,841</u>	<u>16,329,237</u>
INCREASE IN UNRESTRICTED NET ASSETS	1,303,154	2,144,191
NET ASSETS, beginning of year	<u>12,970,785</u>	<u>10,826,594</u>
NET ASSETS, end of year	<u>\$ 14,273,939</u>	<u>\$ 12,970,785</u>

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,303,154	\$ 2,144,191
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	451,136	475,600
Changes in assets and liabilities:		
Accounts receivable	68,435	(53,958)
Grants receivable	(13,518)	12,448
Other receivable	1,406	(158,208)
Due from Valeo CRP, Inc.	8,950	2,834
Prepaid expenses	(190,141)	(24,205)
Accounts payable	(13,450)	64,837
Accrued payroll	25,993	(401,115)
Accrued vacation	(9,130)	23,391
Other current liabilities	(2,921)	592
Deferred revenue	298,158	(10,901)
Net Cash Provided (Used) by Operating Activities	1,928,072	2,075,506
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(580,341)	(157,681)
Investment income	(190,630)	(90,213)
Investment expense	24,917	-
Realized and unrealized (gain) loss on investments	24,446	-
Proceeds from redemption of operating investments	1,677,818	6,515,433
Purchase of operating investments	(2,600,000)	(7,408,370)
Net Cash Provided (Used) by Investing Activities	(1,643,790)	(1,140,831)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on certificates	(188,673)	(182,992)
Net Cash Provided (Used) by Financing Activities	(188,673)	(182,992)
NET INCREASE (DECREASE) IN CASH	95,609	751,683
CASH AND CASH EQUIVALENTS, beginning of year	6,365,293	5,613,610
CASH AND CASH EQUIVALENTS, end of year	\$ 6,460,902	\$ 6,365,293

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF CASH FLOWS (Continued)
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
STATEMENT OF FINANCIAL POSITION PRESENTATION:		
Cash and cash equivalents	\$ 5,803,808	\$ 5,704,974
Operating investments - Board designated	<u>657,094</u>	<u>660,319</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,460,902</u>	<u>\$ 6,365,293</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 66,282</u>	<u>\$ 73,423</u>

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Valeo Behavioral Health Care, Inc. (Valeo) is a comprehensive mental health center licensed by the State of Kansas with three major program components serving Shawnee County, Kansas. The first program, Mental Health Services, provides a crisis stabilization unit and case management services to the long-term mentally ill adult population, screening, referrals, short-term outpatient mental health services and a 24-hour crisis service. The second program, Medical Services, provides medication services to those who require psychotropic medications and monitoring. The third program, Valeo Recovery Center, provides residential and outpatient treatment for alcoholism and drug dependency.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as unrestricted, temporarily restricted or permanently restricted based on whether there are donor imposed restrictions.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its FASB ASC 958, *Not-for-Profit Entities*. Under FASB ASC 958, Valeo is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Support that is restricted by donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Net assets are released from restrictions by incurring expenses satisfying the restricted purpose. The Organization has no temporarily or permanently restricted net assets as of December 31, 2011 and 2010.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of petty cash, checking accounts and money market accounts. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The Organization had no noncash financing transactions nor made cash payments for income taxes.

On December 31, 2010, Valeo purchased \$1,340,655 of Federal Home Loan Bank and Federal Farm Credit Banks bonds under a daily repurchase agreement to be resold on January 2, 2012. On December 31, 2010, Valeo purchased \$2,990,633 of Federal Home Loan Bank bonds under a daily repurchase agreement to be resold on January 2, 2011. These amounts are included in cash and cash equivalents in the accompanying Statements of Financial Position. Due to the short-term nature of the agreement, Valeo did not take possession of the securities, which were instead held in Valeo's safekeeping account at the bank.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Investments

Operating investments consist of a certificate of deposit and equity and debt securities. The equity and debt securities, which are held by investment companies, are carried at market value. The certificate of deposit, which is held by a financial institution, is carried at cost because it is not affected by market rate changes.

Accounts Receivable

Accounts receivable are carried at original invoice amount less estimates for contractual allowances and uncollectible amounts based on a review of all outstanding amounts on a regular basis. After all third party sources have been billed, individual consumers are given ninety days to pay their balances. When a balance is greater than ninety days old, Valeo determines whether the account should be sent to a collection agency or written off.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the lives of property and equipment are capitalized. When assets are retired or otherwise disposed of, the asset and related accumulated depreciation are reduced and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs are expensed as incurred.

Financing Costs

Financing costs are being amortized using a method which approximates the effective interest method over the term of the certificates of participation. Amortization expense for the years ended December 31, 2011 and 2010 was \$7,008 and \$7,673, respectively.

Accrued Vacation

Personal leave is accrued at varying rates based on years of service. A maximum of thirty days of vacation leave may be accrued by any employee.

Deferred Revenue

Grant funds received but unearned at the end of an accounting period are reflected as deferred revenue.

Net Patient Fees

Net patient fees are reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are charged to operations when incurred. For the years ended December 31, 2011 and 2010, advertising costs totaled \$14,622 and \$14,061.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in Note 10 to the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services on the basis of benefits received from the associated costs. Affiliates are subrecipients of federal, state and local moneys.

Income Taxes

Valeo, which has been classified as an entity other than a private foundation, is exempt from federal income taxes under the provisions of the Internal Revenue Code, Section 501(c)(3). Accordingly no provision for income taxes has been made.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENT OF FUNDS

At December 31, 2011 and 2010, the bank balances of Valeo's deposits was \$2,051,441 and \$3,687,979, of which \$250,000 was covered by Federal Deposit Insurance Corporation (FDIC), \$1,340,655 and \$2,990,633 secured by securities held in a sweep account. At December 31, 2011 and 2010, the remaining bank balance was insured by additional FDIC insurance available through the Transaction Account Guarantee Program purchased by the bank. The Organization was fully insured at December 31, 2011 and 2010.

In addition, Valeo holds \$10,656,071 and \$7,928,588 of cash and cash equivalents at December 31, 2011 and 2010 in separate accounts held by investment and trust companies. Investments in certain mutual funds are insured up to \$500,000, with a limit of \$100,000 for cash, by the Securities Investor Protection Corporation (SIPC). At December 31, 2011 and 2010, the Organization had approximately \$8,602,048 and \$5,803,493 in excess of SIPC insured limits. The brokerage firms have purchased additional insurance from external insurance companies against loss and the investments with these firms were fully insured at December 31, 2010. However, at December 31, 2011 and 2010, the Organization had investments held by a trust company in municipal and corporate bonds in the amount of \$3,981,429 and \$2,823,818 that were uninsured and investments in government backed securities in the amount of \$1,158,512 and \$1,193,958 that are uninsured.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 3 – OPERATING INVESTMENTS

Investments include mutual funds, certificates of deposit, U.S. government backed obligations, municipal bonds, corporate bonds and foreign corporate bonds. These are recorded at fair value based on quoted market prices which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized gains and losses related to changes in fair value are reported in the statement of activities.

The disclosure requirements of the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 820) establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ACS 820 are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value for the Organizations investments are determined by quoted market prices.

Operating investments consists of the following at December 31, 2010:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Certificate of deposit	\$ 246,374	\$ 246,374	\$ 246,657	\$ 246,657
Negotiable certificate of deposit	100,077	100,000	-	-
Mutual Funds	633,703	675,625	701,550	645,545
Municipal bonds	1,209,683	1,199,948	894,983	902,664
Municipal bonds - taxable	896,912	856,540	535,779	552,177
Corporate bonds	1,370,370	1,372,412	1,393,056	1,376,299
Foreign corporate bonds	404,387	407,164	-	-
US Government agency obligations	1,158,512	1,156,260	1,193,958	1,205,943
Total Operating Investments	<u>\$ 6,020,018</u>	<u>\$ 6,014,323</u>	<u>\$ 4,965,983</u>	<u>\$ 4,929,285</u>

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 3 – OPERATING INVESTMENTS (Continued)

The fair values of assets measured on a recurring basis are as follows:

December 31, 2011				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificate of deposit	\$ 246,374	\$ 246,374	\$ -	\$ -
Negotiable certificate of deposit	100,077	100,077	-	-
Mutual Funds	633,703	633,703	-	-
Municipal bonds	1,209,683	1,209,683	-	-
Municipal bonds - taxable	896,912	896,912	-	-
Corporate bonds	1,370,370	1,370,370	-	-
Foreign corporate bonds	404,387	404,387	-	-
US Government agency obligations	1,158,512	1,158,512	-	-
Total Operating Investments	<u>\$ 6,020,018</u>	<u>\$ 6,020,018</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2010				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificate of deposit	\$ 246,657	\$ 246,657	\$ -	\$ -
Mutual Funds	701,550	701,550	-	-
Municipal bonds	894,983	894,983	-	-
Municipal bonds - taxable	535,779	535,779	-	-
Corporate bonds	1,393,056	1,393,056	-	-
US Government agency obligations	1,193,958	1,193,958	-	-
Total Operating Investments	<u>\$ 4,965,983</u>	<u>\$ 4,965,983</u>	<u>\$ -</u>	<u>\$ -</u>

There have been no changes in the methodologies used at December 31, 2011 and 2010.

NOTE 4 – NET PATIENT FEES

Valeo generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plan or policies. Additionally, agreements have been established with third-party payors that provide for payments to Valeo at amounts different from its established rates. The basis for payment to Valeo under these agreements includes prospectively determined discounts from established charges or prospectively determined daily rates.

Allowance for bad debt at December 31, 2011 and 2010 was \$137,506 and \$168,029, respectively. Contractual allowances totaled \$188,774 and \$215,512 at December 31, 2011 and 2010.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2011	2010
Land	\$ 373,775	\$ 367,775
Buildings	5,877,685	5,767,337
Real estate leasehold	123,676	123,676
Leasehold improvements	247,984	247,984
Office equipment	2,345,989	2,329,193
Motor vehicles	349,126	370,513
Total Property and Equipment	9,318,235	9,206,478
Less accumulated depreciation	(5,848,619)	(5,878,761)
Net Property and Equipment	\$ 3,469,616	\$ 3,327,717

Depreciation expense for the years ended December 31, 2011 and 2010 was \$451,136 and \$475,600, respectively.

In 2005, the Board of Directors of Valeo transferred a house from Valeo CRP, Inc., a wholly owned subsidiary to Valeo. This transfer was recorded as a capital contribution on the accompanying Statement of Activities.

NOTE 6 – OPERATING LEASE COMMITMENTS

Valeo leases equipment under several operating leases which expire in various years through 2012. Total rent expense was \$64,842 and \$66,537 for the years ended December 31, 2011 and 2010. The future minimum operating lease payments are as follows:

2012	\$ 15,333
2013	4,870
Total	\$ 20,203

NOTE 7 – LONG-TERM DEBT

In 1991, the construction of a facility and the purchase of land and a building for Valeo Recovery Center were financed through Certificates of Participation issued by Shawnee County, Kansas (the County). Valeo is the sublessee and the County is the lessee in the transaction which is, in substance, a capital lease. In June 1994, the County issued \$1,215,000 in Certificates of Participation for the purpose of advance refunding the remaining principal of the Series 1991 issue.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 7 – LONG-TERM DEBT (Continued)

In February 1999, the County issued \$3,375,000 in Certificates of Participation Series 1999A, at a discount of \$69,945, for the purpose of refunding the 1994 Certificates of Participation and to finance the cost of the expansion of certain facilities. The 1999A Certificates of Participation require annual principal payments and expire in 2019. The balance due at December 31, 2004 was \$2,635,000 less the discount of \$39,757. This discount is being amortized over the life of the certificates. Amortization of the discount charged to interest expense was \$3,113 and \$3,381 in 2011 and 2010.

In August, 2005, the County issued Certificates of Participation Series 2005, at a discount of \$33,742, for the purpose of refunding the 1999A Certificates of Participation. The 2005 Certificates of Participation require annual principal payments and expire in 2017. They bear an interest rate from 2.8% to 4.0%. As the 1999A Certificates are not callable until 2009, the discount on this issue is still being amortized over the life of the original certificates. The discount on the 2005 bonds is also being amortized over the life of the bonds. The balance due at December 31, 2011 and 2010 was \$1,355,000 and \$1,550,000, respectively, less the cumulative discount of \$28,678 and \$35,687. Amortization of the discount charged to interest expense was \$3,528 and \$3,185 in 2011 and 2010. Maturities of long-term debt are as follows:

2012	\$	205,000
2013		215,000
2014		220,000
2015		230,000
2016		240,000
Thereafter		<u>245,000</u>
Total Debt		1,355,000
Less: Discount on long-term debt		(22,351)
Current portion of long-term debt		<u>(205,000)</u>
Net Long-term Debt	\$	<u>1,127,649</u>

NOTE 8 - BOARD DESIGNATED FUNDS

Valeo has designated a portion of net assets to provide for the repayment of principal and interest on the Certificates of Participation and for health insurance withheld.

The amounts designated at December 31 are as follows:

	2011	2010
Bond payments - principal and interest	\$ 657,094	\$ 660,319
Health insurance withheld	<u>50,846</u>	<u>38,285</u>
Total Designated Net Assets	<u>\$ 707,940</u>	<u>\$ 698,604</u>

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 9 - PENSION PLAN

The Organization has a 401(k) Plan (Plan) to provide retirement benefits for its employees. Employees may contribute from their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company contributes 50% of the first 4% of base compensation that an employee contributes to the Plan. All matching contributions vest on years of continuous service. An employee is 100% vested after six years of credited service. In addition, the Plan provides for discretionary profit-sharing contributions as determined by the Board of Directors. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants.

Valeo's matching contributions to the Plan was \$82,300 and \$81,606 and profit-sharing was \$372,683 and \$374,825 for the years ended December 31, 2011 and 2010.

NOTE 10 - FUNCTIONAL EXPENSES

Valeo's expenses by function are as follows for the year ended December 31:

	2011	2010
Administration and overhead	\$ 2,374,744	\$ 2,077,195
Mental health services	8,362,862	8,370,894
Medical services	1,551,089	1,551,122
Valeo Recover Center	2,506,028	2,448,089
Unallocate payments to affiliates	1,932,118	1,881,937
Total Expenses	<u>\$ 16,726,841</u>	<u>\$ 16,329,237</u>

NOTE 11 - PAYMENTS TO AFFILIATES

Valeo's payments to affiliates for the year ended December 31 consist of the following:

	2011	2010
Breakthrough House	\$ 456,421	\$ 430,471
Family Service and Guidance Center	1,475,697	1,451,466
Total Pass-through of Grants and Tax Subsidies	<u>\$ 1,932,118</u>	<u>\$ 1,881,937</u>

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 12 - TRANSACTIONS WITH AFFILIATE

Valeo CRP, Inc. (CRP) was created to provide residential housing and care for individuals in need of continuing mental health care. Valeo is the sole member of CRP. CRP pays Valeo 15% of its net patient fees and professional fees as a management fee. Management fees totaled \$167,448 and \$193,152 for the years ended December 31, 2011 and 2010. CRP owes Valeo \$9,618 and \$18,568 at December 31, 2011 and 2010.

The financial position and results of operations of CRP for 2011 and 2010 are not included in these financial statements. Valeo CRP, Inc. issues separate financial statements.

NOTE 13 - RISK MANAGEMENT

Valeo participates in a partially self-funded health insurance program administered by Blue Cross Blue Shield. A monthly premium is paid for stop-loss coverage and includes an amount for administrative costs. The maximum liability for Valeo for each individual covered is \$60,000 per plan year with an aggregate plan maximum liability of approximately \$1,135,900.

Valeo made claim payments of approximately \$674,000 and \$733,000 during the years ended December 31, 2011 and 2010. At December 31, 2011 and 2010, Valeo had recorded a liability of approximately \$50,000 and \$38,000 for estimated self-insured liability claims which are included in other current liabilities on the Statement of Financial Position.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation

Valeo is a party to litigation matters and claims arising in the normal course of its operations. In the opinion of management, disposition of these matters will not have a material adverse effect on Valeo's financial position or results of operations.

NOTE 15 - INCOME TAX MATTERS

Valeo Behavioral Health Care, Inc. adopted the accounting standard on accounting for uncertainty in income taxes. The Organization files a Form 990 (Return of Organization Exempt from Income Tax) annually. When this return is filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to not for profit organizations include such matters as the following: the tax exempt status of the entity and the nature, characterization and taxability of various positions relative to potential sources of unrelated business taxable income. Unrelated business taxable income is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 15 – INCOME TAX MATTERS (Continued)

Tax positions are not offset or aggregated with other positions. Tax positions that meet the “more likely than not” recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying statement of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of December 31, 2011 and 2010, there were no uncertain tax benefits identified and recorded as a liability.

The Form 990 filed by the Organization is subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of the return. The Form 990 filed by the Organization is no longer subject to examination for the fiscal years ended December 31, 2007 and prior.

NOTE 16 – SUBSEQUENT EVENTS

The Organization adopted FASB ASC Topic 855, *Subsequent Events*. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, it sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC 855 had no impact on the Organization’s financial statements.

In accordance with ASC 855, the Organization evaluated subsequent events through June 29, 2012, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

VALEO BEHAVIORAL HEALTH CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2011

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award Amount	Expenditures
U.S. Department of Health and Human Services:				
Passed through Kansas Department of Social and Rehabilitation Services:				
Substance Abuse Prevention and Treatment Block Grant	93.959	ADT 05-05-04 *	\$ 263,326	\$ 264,992
Community Mental Health Services Block Grant	93.958	MHRC 11-023	413,593	206,796
Community Mental Health Services Block Grant	93.958	MHCC 12-023	413,593	206,797
Total Community Health Services Block Grant				413,593
PATH Block Grant	93.150	PATH 11-023 *	122,107	64,473
Total Expenditures				\$ 743,059

* Award Amended

See accompanying notes to schedule of federal and state awards

VALEO BEHAVIORAL HEALTH CARE, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the year ended December 31, 2011

Grantor/Pass-through Grantor/Program Title	Pass-through Grantor's Number	Award Amount	Expenditures
Kansas Department of Social and Rehabilitation Services:			
Substance Abuse Prevention and Treatment Block Grant	ADT 05-05-04	* \$ 959,300	\$ 968,760
Mental Health Reform Contract	MHRC 11-023	1,290,090	645,045
Mental Health Reform Contract	MHCC 12-023	1,159,436	544,867
Total Mental Health Reform Contract			1,189,912
Mental Health State Aid	DBSH-SA-11-21	976,028	488,014
Mental Health State Aid	DBSH-SA-12-21	976,028	488,014
Total Mental Health State Aid			976,028
Total Expenditures			\$ 3,134,700

* Award Amended

See accompanying notes to schedule of federal and state awards

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO SCHEDULES OF FEDERAL AND STATE AWARDS
For the year ended December 31, 2011

NOTE 1 – GENERAL

The accompanying schedules of expenditures of federal and state awards present the activity of all federal and state awards to Valeo Behavioral Health Care, Inc.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying schedules are presented on the accrual basis of accounting.

VALEO BEHAVIORAL HEALTH CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2011

Section I – Summary of Auditor's Results

Summary of independent auditors' results:

Financial statements:

Type of report issued:

Financial statements	Qualified
Compliance for Major Programs	Unqualified

Internal control over financial reporting:

Material weaknesses identified	None
Reportable conditions identified that are not considered to be material weaknesses	None reported

Material noncompliance noted:	None
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Federal awards:

Internal control over major programs:

Material weaknesses identified	None
Reportable conditions identified that are not considered to be material weaknesses	Note reported

Major Programs:

Substance Abuse Prevention and Treatment Block Grant	CFDA No. 93.959
Community Mental Health Services Block Grant	CFDA No. 93.958

Findings required to be reported	None
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Dollar threshold between Type A and Type B programs	\$300,000
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Low-risk auditee	No
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VALEO BEHAVIORAL HEALTH CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2011

Section II – Financial Statements Findings

There were no reportable conditions, material weaknesses nor instances of noncompliance related to the financial statements that are required to be reported.

Section III – Federal Award Findings and Questioned Costs

There were no audit findings required to be reported by section 510 (a) of Circular A-133 found or reported.

Section IV – Status of Corrective Action Taken on Prior Findings

There were no audit findings or questioned costs for the year ended December 31, 2010 and therefore no corrective action was needed during year ended December 31, 2011.

Douthett & Co. CPA, PA

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Valeo Behavioral Health Care, Inc.

We have audited the financial statements of Valeo Behavioral Health Care, Inc. as of and for the year ended December 31, 2011, and have issued our report thereon dated June 29, 2012 which is qualified because the financial statements do not include the financial position and results of operations of Valeo CRP, Inc., an affiliate which Valeo controls. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Valeo's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valeo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Valeo's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

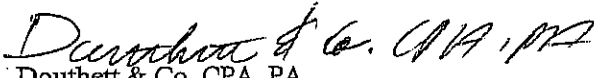
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valeo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed

no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Douthett & Co. CPA, PA
Certified Public Accountants
June 29, 2012

Douthett & Co. CPA, PA

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Valeo Behavioral Health Care, Inc.

Compliance

We have audited the compliance of Valeo Behavioral Health Care, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2011. Valeo's major federal programs are identified in the summary of auditor's results section in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Valeo's management. Our responsibility is to express an opinion on Valeo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valeo's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Valeo's compliance with those requirements.

In our opinion, Valeo's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance


The management of Valeo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Valeo's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valeo's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Douthett & Co. CPA, PA
Certified Public Accountants
June 29, 2012

**SUPPLEMENTARY INFORMATION BASED ON SOCIAL AND
REHABILITATION SERVICES' REQUIREMENTS**

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
GRANT ACTIVITY - CASH BASISPATH BLOCK GRANT #PATH 11-023
For the year ended December 31, 2011

	<u>Budget</u>	<u>Through 12-31-10</u>	<u>Actual 1-1-11 to 12-31-11</u>	<u>Total</u>	<u>Over (Under) Budget</u>
Receipts:					
Grant	<u>\$ 185,075</u>	<u>\$ 35,909</u>	<u>\$ 95,733</u>	<u>\$ 131,642</u>	<u>\$ (53,433)</u>
Disbursements:					
Staffing/personnel	\$ 161,980	\$ 41,389	\$ 84,874	\$ 126,263	\$ (35,717)
Travel	7,680	1,766	4,091	5,857	(1,823)
Supplies	11,815	3,550	6,760	10,310	(1,505)
Other expenses	<u>3,600</u>	<u>506</u>	<u>1,996</u>	<u>2,502</u>	<u>(1,098)</u>
Total Disbursements	<u>\$ 185,075</u>	<u>\$ 47,211</u>	<u>\$ 97,721</u>	<u>\$ 144,932</u>	<u>\$ (40,143)</u>

* Valeo provided a match of \$63,600 for this grant

Includes Federal PATH Funds of \$122,107 and State Post-access Funds of \$62,968

See accompanying independent auditors' report

VALEO BEHAVIORAL HEALTH CARE, INC.
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 GRANT ACTIVITY - CASH BASIS

TRANSITIONAL HOUSING GRANT #IH 11-023
 For the year ended December 31, 2011

	<u>Budget</u>	<u>Through 12-31-10</u>	<u>Actual 1-1-11 to 09-30-11</u>	<u>Total</u>	<u>Over (Under) Budget</u>
Receipts:					
Grant	<u>\$ 24,180</u>	<u>\$ 18,289</u>	<u>\$ 5,530</u>	<u>\$ 23,819</u>	<u>\$ (361)</u>
Disbursements:					
Rent & utilities	<u>\$ 24,180</u>	<u>\$ 19,800</u>	<u>\$ 4,380</u>	<u>\$ 24,180</u>	<u>\$ -</u>
Total Disbursements	<u>\$ 24,180</u>	<u>\$ 19,800</u>	<u>\$ 4,380</u>	<u>\$ 24,180</u>	<u>\$ -</u>

See accompanying independent auditors' report

VALEO BEHAVIORAL HEALTH CARE, INC.
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 GRANT ACTIVITY – CASH BASIS

TRANSITIONAL HOUSING GRANT #IH 12-023
 For the year ended December 31, 2011

	<u>Budget</u>	<u>Actual 10-1-10 to 12-31-10</u>	<u>Over (Under) Budget</u>
Receipts:			
Grant	<u>\$ 15,500</u>	<u>\$ 5,821</u>	<u>\$ (9,679)</u>
Disbursements:			
Rent & utilities	<u>\$ 15,500</u>	<u>\$ 7,526</u>	<u>\$ (7,974)</u>
Total Disbursements	<u>\$ 15,500</u>	<u>\$ 7,526</u>	<u>\$ (7,974)</u>

See accompanying independent auditors' report

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
GRANT ACTIVITY - CASH BASIS

OTHER GRANTS

For the year ended December 31, 2011

	<u>Budget</u>	<u>Through 12-31-10</u>	<u>Actual 1-1-11 to 12-31-11</u>	<u>Total</u>
Substance Abuse Prevention and Treatment Block Grant # ADT 05-05-04				
Receipts	<u>\$ 9,752,365</u>	<u>\$ 7,757,812</u>	<u>\$ 1,209,384</u>	<u>\$ 8,967,196</u>
Disbursements	<u>\$ 9,752,365</u>	<u>\$ 8,155,579</u>	<u>\$ 1,233,752</u>	<u>\$ 9,389,331</u>
Mental Health State Aid #DBSH-SA-11-21				
Receipts	<u>\$ 976,028</u>	<u>\$ 488,014</u>	<u>\$ 488,014</u>	<u>\$ 976,028</u>
Disbursements	<u>\$ 976,028</u>	<u>\$ 488,014</u>	<u>\$ 488,014</u>	<u>\$ 976,028</u>
Mental Health State Aid #DBSH-SA-12-21				
Receipts	<u>\$ 976,028</u>	<u>\$ -</u>	<u>\$ 732,021</u>	<u>\$ 732,021</u>
Disbursements	<u>\$ 976,028</u>	<u>\$ -</u>	<u>\$ 488,014</u>	<u>\$ 488,014</u>
Mental Health Reform Contract #MHCC 11-023				
Receipts	<u>\$ 1,703,682</u>	<u>\$ 786,298</u>	<u>\$ 776,620</u>	<u>\$ 1,562,918</u>
Disbursements	<u>\$ 1,703,682</u>	<u>\$ 786,298</u>	<u>\$ 851,841</u>	<u>\$ 1,638,139</u>
Mental Health Reform Contract #MHCC 12-023				
Receipts	<u>\$ 1,573,029</u>	<u>\$ -</u>	<u>\$ 852,058</u>	<u>\$ 852,058</u>
Disbursements	<u>\$ 1,573,029</u>	<u>\$ -</u>	<u>\$ 751,664</u>	<u>\$ 751,664</u>

See accompanying independent auditors' report